

The Russian Shuffle

Russia's retaliatory ban on food imports, which includes most dairy products, will only minimally impact U.S. dairy exports, but it could create a major reshuffling of dairy product sales in world markets.

On August 6, Russia implemented an import ban on dairy, meat, fish, poultry, fruits, and vegetables from countries that placed sanctions on Russia for supporting pro-Russian separatists in Ukraine. The one-year ban affects the United States, European Union, Australia, Canada, and Norway. Dairy imports from New Zealand, Brazil, and Argentina are not banned.

The following day, the Russian government released an amended list of products that included several exclusions, including lactose-free dairy products.

U.S. dairy exports to Russia have been declining over the past several years due to an ongoing dispute over import documentation. Last year, the United States sold only \$6.4 million worth of dairy products to Russia, down dramatically from

2010's \$86.4 million, according to USDA data. Regardless

of the ongoing trade issues with Russia, the U.S. dairy industry will not be immune to the upheaval in world markets that results from the ban.

Russia is the world's largest butter importer and its second largest importer of cheese. Much of Russia's imported butter and cheese comes from the European Union. Last year, Russia imported 89,844 metric tons of

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

A ban on food imports is a rare occurrence in today's global markets, and Russian consumers are already paying the price.

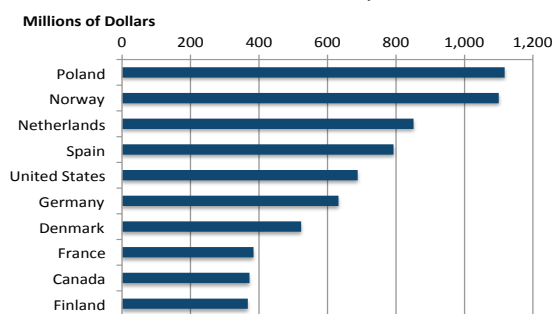
According to data from Germany's Statista, food inflation in Russia is gaining momentum. Since Jan. 1, the price of potatoes

has climbed 72.7%. Chicken and pork prices have increased 25.8% and 23.5%, respectively. And milk prices have jumped 13.5%. Overall, food in Russia has become 10 percent more expensive since the start of the year.

Russians are not the only ones paying the price, though. The European Union will see the biggest loss in exports, with its top seven exporters to Russia losing nearly \$3.6 billion in annual sales. Poland will give up \$1.1 billion, followed by the Netherlands with \$851 million, Spain at \$793 million, Germany with \$632 million, Denmark at \$523 million, France with \$384 million, and Finland at \$367 million. Elsewhere, Norway's annual seafood exports to Russia are valued at just over \$1 billion, the United States will lose more than \$688 million, and Canada nearly \$372 million.

Many analysts think world dairy trade will just undergo a reshuffling, but another scenario could play out. With food prices rising, Russians could cut their butter and cheese purchases, depressing dairy consumption over the next year. **MCT**

Value of Banned Food Exports to Russia



Source: Statista.

Russian Ban Softens Butter...

CME spot butter prices hit an all-time record high last week but have since fallen back. However, butter prices are still near record-high territory,

which could affect retailers' ability to feature butter for the upcoming holiday season. With year-over-year milk production increases gaining momentum

and European butter suppliers looking for new markets due to the Russian ban, world and U.S. butter prices could soften headed into the strong holiday demand period. Those who need seasonal inventory will buy on the dips, so butter prices will likely still see some increases, but once fall and holiday buying is complete, CME spot butter prices could melt into the \$1.90 range. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Aug	2.1800	2.1930	22.30	2.6100	23.95	0.6850	1.7970
Sep	2.3000	2.3000	24.55	2.6500	23.80	0.6600	1.6880
Oct	2.1500	2.1250	23.60	2.3500	21.35	0.6450	1.6075
Nov	2.0000	1.9750	22.20	2.2500	20.05	0.6375	1.5530
Dec	1.8500	1.8250	20.75	2.0000	19.50	0.6350	1.5050
Jan	1.8000	1.7750	19.60	1.9000	18.60	0.6230	1.4700

* CME prices.

**NASS prices.

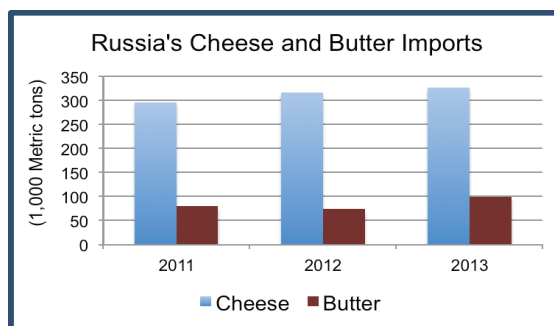
The Europeans are coming...

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butter from all countries, with 30 percent coming from EU-28 nations. In 2013, Russia imported 326,770 metric tons of cheese, with 80 percent originating from the EU-28, according to the U.S. Dairy Export Council.

Now that Europe cannot sell dairy products to Russia, it will need to set its sights on other markets currently served by the United States or New Zealand. U.S. butter prices, which hit an all-time record high last week, are well above EU butter prices. European suppliers might need to become more aggressive on discounting prices as they look for other export markets, and discounted European butter could easily displace U.S. butter into the Middle East. Likewise, European exporters of cheese could look to South Korea or Japan—two of the United States' largest export markets for cheese—for potential sales.

The other issue is whether countries excluded from the ban, particularly New Zealand, Argentina, Brazil, and Uruguay, will have enough product to fill the void in Russia left by banned EU dairy products. New Zealand, Brazil, and Argentina should be able to meet Russia's butter needs, but it is unlikely that these countries will have enough product to fill Russia's



much larger need for imported cheese.

To meet this need, nearly all of the cheese exports from New Zealand, Argentina, and Brazil would have to ship to Russia. But not all of the cheese plants in these eligible countries have been officially approved as Russian suppliers, and that could take time. In addition, sanctions on the banking sectors could impede the flow of capital needed to facilitate trade.

In the meantime, if Europe does not find other markets, dairy product prices in the world's largest dairy exporting region could plunge. And U.S. dairy prices could follow suit, at least in the short term, particularly if European cheese and butter displaces U.S. products in various markets. **MCT**



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